

Dear Investor,

We have noted that there are a few malicious and anonymous letters about the company that are being circulated to mislead investors and we wish to clarify our position with respect to one such letter that has been brought to our notice by investors. We are a highly transparent company and wish to achieve the highest standards of corporate governance.

Needless to say, the company's management is available to answer any of the following queries and is available on the phone/email. We have provided our clarifications against each of the false allegations. (Please see below)

It appears, that in the present environment, the circulation of such false allegations is mainly to create panic and for some people to profit from the same. We urge you look at some serious research on the Education space in India such as CLSA Education Report, Merrill Lynch reports on Educomp, Credit Suisse report, JM Financial Report, HDFC report, ICICI report and the recent IDFC-SSKI research released last week which we are attaching for your reference.

To reiterate, I am available to answer your queries at any time. My email id is sangeeta.gulati@educomp.com

Best Regards

Sangeeta Gulati

CFO

Encl :

- a. Shareholding pattern of Educomp
 - b. Details of share sales of Promoters
 - c. IDFC Report
 - d. Q2 FY09 investor Update
-

Excerpt:

“The company has raised Rs 650 crores and made total sales of Rs 167 crores in the year 2008 and Rs 69 crores in the year 2007, which is nothing but malafide intention of the promoters of the company to siphon the funds. It is clearly indicated that to achieve just small sales as mentioned above, this huge amount of Rs 650 crores was not required at all.

On comparison of the balance sheet/s of the company for the year 2005-06, 2006-07, and 2007-08 and half yearly results 2009, it appears that the company has manipulated books of accounts to show higher profits and diverted company funds.

1) Increase in Sales/ Turnover

Particulars	F.Y. 2005-06	F.Y. 2006-07	F. Y. 2007-08	6 Months 2008-09
Sales/ Turnover	52.30	106.57	262.10	167.54
Breakup as follows:				
a) Trading of Educational products		37.45	94.77	
b) Educational Services		69.12	167.33	
Increase in %	100%	250%	350%	
Operating Profit	26.46	51.29	126.34	93.64
% of profit	50.06%	48.12%	48.20%	60.00%

As per the page No 92 of Sch 10 of FY 2008, there is an increase of 250% in the year 2008 and 350% increase in the year 2009 on the basis of the turnover for the year 2006 with a constant operating profit of approx. 50% in all the three financial years and increase to 60% in the year 2009. Out of the total sales of 262 crores in the year 2008, out of which 94.77 crores are sale of trading goods of Educational products like books, CD Roms and toys. During the year 2008 as against the sale of educational services of Rs 167 crores, the company has made addition in fixed assets of Rs 184.84 crores to adjust the profit.”

Clarification:

The company has achieved a PAT of Rs 28.65 crore as on March 31, 2007 and PAT of Rs 70.05 crore as on March 31, 2008 and our guidance of PAT for FY 09 is Rs 140-145 crore.

The break up of the sales of education products amounting to Rs 94.78 crore as on March 31, 2008 and Rs 34.45 crore as on March 31, 2007 are mainly on account of sales of equipment (computer and accessories) provided by the company to both private and government schools.

The company's business model is to install computers, plasma monitors and digiboards in classrooms as well as a computer lab in the schools for both private and government schools, respectively, for which the students in private schools pay Rs 150 per student per month fee for a 5-year contract and in government schools, the government pays on an Equated Quarterly Installment (EQI) basis. The company provides this equipment on a BOOT (Build Own Operate

and Transfer) basis, whereas the assets are capitalized and are shown as fixed assets and transferred to the school once the contract period is over. The private schools business comes under the segment SmartClass and Government Schools comes under the Segment ICT.

Thus ICT and SmartClass are both high Capex businesses.

Normally, 10% of SmartClass schools signed during a particular year are on outright sale basis. It is these sales which are shown as 'Sales of Education products' and are included in "Trading of Education products", these belong to the SmartClass and ICT segment sales of the company. Similarly, the ICT business is a tender-driven business under the PPP program of the Government of India under the Sarva Shiksha Abhiyan. In FY08, all the contracts executed by the company were on outright sale basis e.g Gujarat and Assam. The company has signed up 5,071 schools and implemented 2,819 schools in the state of Gujarat and 87 schools in the state of Assam. The details of the break up of schools is as follows:

FY08

Name of State	Signed	Outright Buy	Hardware Amount Billed (Rs Cr)
Gujarat	2819	2819	52.67
Assam	100	87	2.90
Total			56.51

FY07

Name of State	Signed	Outright Buy	Amount (Rs. Cr)
Karnataka	264	264	7.17
Gujarat	500	500	6.12
Total			13.49 .

Thus, the allegation that out of the total sales of Rs 262 crore, Rs 94.77 crore are on account of sales of trading goods of education products like books, CD and Toys is false. In fact, the breakup of sale of Education products is as follows:

Hardware (Computer and related accessories)	FY07 (Rs. Cr)	FY08 (Rs. Cr.)
ICT	13.49	56.51
SmartClass	16.93	30.64
CDROM/Books	7.02	7.41
Misc	.20	
Total	37.45	94.77

As can be seen from the above, the understanding of the note is totally wrong and it seems that the person writing it has no understanding of the company's business model.

Excerpt:
Bogus Debtors (in the books of accounts)

Particulars	F.Y. 2005-06	F.Y. 2006-07	F. Y. 2007-08
Debtors	25.16	49.35	114.46
Add:- Cheques in hand	4.70	8.06	50.85
Total	29.86	57.41	165.31
Aging of Debtors	7 months	7 months	8 months

“Total Debtors outstanding as per balance sheet March 2008 on page number 89 of B/S, is Rs 114.00 crores and cheques in hands were 50 crores totaling to Rs 164.00 crores against the sale of educational service being the main activity of the company of Rs 167 crores. It shows that these outstanding debtors pertain to educational services, which is clear indication that the company has bogus debtors shown in the balance sheet to show high profit, to avail the credit facilities from the bank and to mislead the bankers for hiding the age of its Debtors which is more than 8 months.

The constant average age of the Debtors is from 7-8 months approx. As per the requirement of Schedule-VI, of the Companies Act 1956, it is mandatory to show the Debts outstanding for a period exceeding 6 months and other Debts as the above calculations the debts outstanding are approx 8 month though in the balance sheet 2007-08 it is shown less than 6 months (refer page 89, Sch-7).”

Clarification:

The Actual position of the debtors of the company is as follows:

	FY08	FY07	FY06
Sales	262.09	106.57	52.30
Debtors	114.45	49.35	25.16
Debtor Days (DTR)	159 days	169 days	176 days

You will note that our debtor days have fallen from 176 days in FY06 to 159 days in FY08 and further, on a consolidated basis, our debtor days are down to 145 days as on September 30, 2008. It is not 240 days (8 months) as reported in the note.

Further, if you refer to Schedule VI of the Annual Report, the company has given a bifurcation of debtors less than 6 months and more than 6 months as required by provisions of Company's Act 1956 (Please refer to Page 93 of Annual Report FY'08). Our debtor days are on account of the billing cycle of our business as well as the seasonal pattern.

As per the company's billing cycle, the company collects for its services on a quarterly basis (ie. After 90 days). In the case of private schools, we realize this around 30 days of the close of the quarter, making the payment cycle 120 days. In the case of ICT, payment collection is usually between 45 to 60 days of the close of the quarter making the payment cycle as 150 days.

The seasonal pattern of the business observed is that we usually book about 10-12% in Quarter 1, about 18-20% in Quarter 2, 25-30% in Quarter 3 and the balance in Quarter 4. Hence, due to the large billing in Q4, our debtor days appear to be higher on March 31st.

Excerpt:

“The above figures indicated that in every year computer/software/office equipment has been purchased extensively even when there was no need as compare to the size of the business model. It is in ratio of 1:1 which is unjustifiable and also clear indication that the company has booked fictitious assets. (refer page 87, sch-5). For reference in the year 2008 the total block of Computer/ Accessories and software was Rs 230 crores whereas the total sales of educational services was Rs 167 crores, which shows that it is irreverent towards sales/purchase.”

Clarification

The person who has written the note has not understood the business model of SmartClass, in which Educomp makes upfront investments in the school for which it earns money for 5 years. In fact, SmartClass is a highly profitable business for the company yielding a capital repayment of close to one year. Thus the investment in fixed assets will generate revenues for 5 years and not simply for one year. Apart from the CAPEX, the recurring expense of the company to run the SmartClass program is minimal and consists only of the expenditure for one resource coordinator in the school, thus making the model quite profitable.

Excerpt:

“The benefit of booking of fictitious assets is to adjust the bogus profit arises from the bogus sales/purchases. Further also to adjust income tax on bogus profits they were able to claim bogus depreciation resulted in tax evasion of Rs. More than 60.00 crores. The intangible assets are mainly purchased from its subsidiary companies which is also an indication of fictitious purchases.”

Clarification

Needless to say, there are no fictitious assets as all the assets (breakup given above) are installed in Schools. It is wrong to say that intangible assets are mainly purchased from subsidiary companies. In fact, the total expense on account of intangible assets is Rs. 25.82 crore in FY'08, whereas the purchase from Subsidiary companies (Educomp Learning Pvt Ltd) is Rs 7.28 crore out of a total content capitalization of Rs 25.82 crore. The rest of the content purchased is from reputed independent content vendors.

The statement on tax evasion is self contradictory, as earlier the writer wrongly suggests that the company has inflated the profit and, in the above paragraph, he suggests that we are reducing profit to reduce tax liability. Needless to say it is not worth commenting on.

Investment and Advances in subsidiary companies are as under:

Direct Subsidiaries	Investment In Crores	Advances
1.Educomp Learning Private Limited	1.96	
2.Wheatstone Productions Private Limited	3.35	
3.Educomp Infrastructure Private Limited	49.99	9.29
4.Educomp School Management Limited	5.00	
5.Educomp Professional Education Limited	0.50	0.17
6.Educomp Software Limited	0.50	0.33
7.Threebrix E-Services Private Limited	2.50	
8.Authorgen Technologies Private Limited	2.71	
9.Edumatics Corporation Inc.	4.33	0.91
10.Educomp Asia Pacific Pte. Limited	4.05	5.55

Indirect Subsidiaries

11. Ask N Learn Pte ltd, Singapore
(Subsidiary of Educomp Asia Pacific Pte. Ltd)
• **It's a subsidiary of above Sr. no. 10**
12. Singapore Learning.com Pte. Ltd, Singapore
(Subsidiary of Ask n Learn Pte. Ltd)
• **It's a subsidiary of above Sr. no. 11**
13. Pave Education Pte Ltd, Singapore
(Subsidiary of Ask n Learn Pte. Ltd)
• **It's a subsidiary of above Sr. no. 11**
14. Wiz Learn Pte Ltd, Singapore
(Subsidiary of Ask n Learn Pte. Ltd)
• **It's a subsidiary of above Sr. no. 11**
15. Learning.com, U.S.A
(Subsidiary of Educomp Asia Pacific Pte. Ltd)
• **It's a subsidiary of above Sr. no. 10**
16. Shikhya Solutions Inc.,U.S.A
(Subsidiary of Authorgen Technologies Private Limited)
- 17.Educomp Infrastructure Services Private Limited
(Subsidiary of Educomp Infrastructure Private Limited)
• **It's a subsidiary of above Sr. no. 3**
18. Associate
Savvica Inc., Toronto
(acquired 70.5% strategic stake)

Excerpt:

" As per the balance sheet of the company a sum of Rs 70.97 crores has been invested by the Educomp in its various subsidiary companies and paid advances of Rs 9.98 crores without any purpose. Beside this, the Company has purchased Intangible Assets from the subsidiaries. It is also a clear indication of the diversion of funds. These are used for channelizing the funds in the capital market. (refer page-88, Sch-6)"

2.09

Clarification

The above statement is without any merit. All the acquisitions/investments by Educomp are in highly reputed, high quality companies. Our major investments are in Educomp Infrastructure and School Management Services (to set up schools across the country), Learning.Com (www.learning.com - the Leading web delivered education company in the US), Ask n Learn (www.asknlearn.com.sg - the market leader in Singapore's K12 market), Savvica.com (www.learnhub.com – the leading educational community on the web), Authorgen Technologies (www.wiziq.com - the leading student teacher marketplace), 3 brix eServices (www.learninghour.com – a leading vendor of online tutoring services). We have recently also acquired a 50% stake in EuroKids (The leading pre-school brand in India).

The allegation of channelizing funds in the capital market is completely without basis and does not deserve any comment.

Educomp has made an advance to its subsidiary Educomp Infrastructure and School Management Services Limited. The company is currently running 11 schools. The list is as follows:

- CBS Schools – Palam Vihar - Gurgaon
- CBS Schools – Sushant Lok – Gurgaon
- Mussorie International School – Mussorie
- Millennium School – NOIDA
- Millennium School – Mohali
- PSBB Millennium School – Chennai
- PSBB Learning Leadership Academy – Bangalore
- DPS – Patna, Pune , Ludhiana (MLS Licensing)

The advance amounting to Rs 9.98 crore paid to our subsidiaries is adequately disclosed in the Annual Report. However, the break up is as follows :

	Rs Crore
Educomp Infrastructure	9.29
Educomp Asia Pacific Inc.	0.55
Educomp Software	0.03
Educomp Professional	0.02
Edumatics Corporation Inc.	0.09
Total	9.98

Majority of the Rs 9.98 crore amount is spent in Educomp Infrastructure which is spent on building schools. Thus the allegation that there is a diversion of funds is totally misleading.

Excerpt:

"In the year ending 31st March 2008 the company (We had 3955 employees as on 31st March, 2008. Educomp has embarked on a performance Linked incentive system for its Key Employees. Apart from this, Educomp has formulated an appraisal system based on Key Result Area's (KRA'S) has the man power of approx. 4000 personnel (including professional like MBA, MCA, M Phil, M.ED. etc.) with a total cost of Rs. 33.85 Crores P.A . as per the page- 92, schedule-13 of the balance sheet- March-2008.

The details are as under:-

S. No. Qualification Manpower	2008	2007	2006
1 Graduate/ BCA	1984	425	340
2 Post Graduate / B Ed/ M.Ed / M.Phil	390	366	284
3 MCA	270	269	251
4 MBA	490	177	136
5 Others	821	185	179
Total	3955	1422	1190
Cost in Balance sheet :-	33.85	12.63	7.50

- In the balance sheet of the company (Page – 73), it has been shown 3955 employees paid Rs 33.85 crores per annum, working to show the genuineness of the sales and working which is fictitious and not logical as per CTC per person per month.

CALCULATION SHEET OF EMPLOYEES REMUNERATION

employee grades	2007-2008	Minimum salary grade as		2007-2008
	as per	per industry	PER ANNUM	
	balance sheet	norms		
	no of employees			
1 Graduate/ BCA	1984	40,000.00	79,360,000.00	952,320,000.00
2 Post Graduate / B Ed/ M.Ed / M.Phil	390	40,000.00	15,600,000.00	187,200,000.00
3 MCA	270	30,000.00	8,100,000.00	97,200,000.00
4 MBA	490	25,000.00	12,250,000.00	147,000,000.00
5 Others	821	5,000.00	4,105,000.00	49,260,000.00
Total	3955			1,432,980,000.00

REMUNERATION REQUIRED AS PER INDUSTRY NORMS (in crores)

143.30

ISSUED BY THE COMPANY (in crores)

34.6

NET SHORTFALL as per industry norms (in crores)

-108.70

- As per the calculation done by the company based on the number of employees, the average cost to Company (CTC) per person per month comes to Rs 7000/- which is nowhere close to realistic as compared to other IT/Computer or even simple business model companies. Basis on above calculation it is clear indicative that there is net shortfall of Rs 108.74 crores which is quite huge amount and not justified in terms of employee standard related to IT/computer companies."

Clarification

The above statement shows that the person writing the note has no understanding of the business of the company. The company currently works with 9,970 government schools, in which, as a part of the business model, we have, in most cases, to post one person as a lab assistant. The typical salary of this person is Rs 3,500 to 4,500 per month. In addition to this, the company employs one resource coordinator in each SmartClass school (there are 1,267 schools as on September 30, 2009) with a typical salary of Rs 7,000-8,000 per month. These form the bulk of the manpower of the company. It is completely wrong to compare these people to IT programmers. Educomp is not an IT company and should not be compared to IT companies.

Excerpt:

"Price Manipulation in Capital Market

In the year ending on 31st march 2005 the issued, subscribed & paid up capital of the company was Rs 4.47 crores and during the year 2005-06. It was increased to Rs. 15.96 crores and further increased to Rs 17.25 crores in the year ending March 2008. In the month of September 2005 the company has allotted 10 lacs equity share of Rs. 10/- each at a premium of Rs 100/- each on preferential basis prior to the bringing of the IPO.

The company has brought an IPO for the issue of 40 lacs equity share of Rs.10/- each fully paid up at a premium of Rs 115/- each in the year 2005-06, aggregating Rs 50.00crores. These shares were allotted through book building process.

The shares of Educomp Solutions Ltd were inter-alia listed at the Bombay Stoch Exchange Limited and the National Stock Exchange of India Limited. It is noticed that the price of the shares of Educomp had increased from Rs 125/- on 13.01.2006 to Rs.5678/- in the month of January, 2008. The price of the shares of Educomp has moved as stated below:

Date	Price (Rs.)
January, 2006	125/-
January, 2007	1004/-
June, 2007	2324/-
September, 2007	3069/-
December, 2007	4310/-
January, 2008	5678/-
October, 2008	1525/-
January, 2009	2000/-

After the IPO the Company issued 1266071 equity share of Rs. 10/- each were allotted as fully paid up shares on conversion of US \$ 25 million 1% foreign convertible Bonds (FCCB) as per the terms of conversion, for consideration other than cash at a premium of Rs.890 at that time Market price was around Rs 1000/-. Further, 20710 equity share of Rs 10/- each were allotted as fully paid up shares on conversion of US \$ 1.5 million Zero Coupon Foreign currency convertible Bonds (FCCB) as per the terms of conversion, for consideration other than cash."

Clarification

The above needs no comment. The share price of the company is determined by investors in the capital markets and the promoters and management of the company have no role to play in the share price either going up or going down. The USD \$ 25 million FCCB of the company was managed by Jefferies and was widely dispersed to major convertible bond investors. The second \$ 80 million FCCB of the company was lead managed by Barclays and was widely dispersed to major convertible bond investors. The statement on the pricing of the convertible bond is misleading as in both the company's convertible bond issues, the company managed to get a premium of over 30% on the prevailing share price of the company at that time. Any further clarification on allocation of the FCCB , investors can contact Jefferies / Barclays

Excerpt:

“Sale of Promotor’s Holdings:

During the period from January, 2007 the promoters of the company has diluted 14 lacs approx equity shares to the extent of Rs.250 Crores approx. at the high time of the share market price. It smells the price manipulation by the promoters/Directors. (refer ATTACHED WORKSHEET). Other than this they have sold lots of shares from their Benami companies/ names.

It is noticed that the price of the shares of Educomp had increased from Rs 125/- on 13.01.2006 to Rs 5678/- in the month of January, 2008 & now decreased to Rs. 2000. The earnings per share (EPS) as on 31st march-08, was Rs. 41 which has been drastically increased to Rs 90 on the basis of data available for two quarters. It clearly shows that the balance sheet has been manipulated just to rig their share price.”

Clarification

The promoter group has so far sold only approx. 5.07% on fully diluted basis, of their holdings in the company from the IPO till date. The total number of shares sold are 8,76,643 only (Annexure Enclosed). The promoters still hold 55.03% stake in the company. Each time there is a sale of shares, it is duly disclosed to the stock exchanges. The allegation that the company has sold shares from any Benami companies is simply baseless. This is supported by the shareholding pattern as enclosed which depicts that the sale disclosed matches exactly with the present shareholding.

Comparative data of various IT Companies as on 12th Jan 2009

The comparative data of various IT Companies of the same level is reproduced below, self explanatory.

Name of Co.	Traded Price	market cap(Cr)	sales turnover	net profit
NIIT	23.65	389.65	467.38	32.77
APTECH	75.25	349.93	99.26	2.45
EVERONH SYSTEMS	201.95	305.36	91.23	14.05
SOFTWARE TECH	7.50	9.38	45.76	3.20
Educomp	1989.60	3439.28	262.10	70.06

- In view of the unusual price movement price mentioned above it appears that there is a possible price movement in the shares of Educomp Solutions Limited and inter-alia the role of its Directors and promoters in respect of the manipulation of share price.

Clarification

Each company mentioned above for comparison has its own growth plans, its own trajectory and its own margin profile and it is not possible to make any comparison between the profits of these companies and their market capitalization because of the different business models and the different space that we are occupying in the education marketplace. To understand the difference better, we are enclosing the latest education report from IDFC-SSKI which illustrates the difference between the companies. The other coverage from analysts from CLSA and Merrill Lynch, JM Financial and Credit Suisse also illustrate the differences.

Excerpt:
7. FUND FLOW STATEMENT AS PER BALANCE SHEET
AS ON 31.03.2008

A) INFLOW OF FUNDS	(Rs in Crores)	
- UNSECURED loan from FCCB	314.94	
- cash from operating activities	68.10	
- Borrowing from Banks	24.16	
- Overdraft against FDR	10.59	
- Other Income	11.50	
- Opening cash & Bank balances	94.96	524.25

B) Utilisation of funds

-Investment in subsidiaries	42.93	
-Loan & advances to subsidiaries	10.00	
-Fixed deposits with SBI London U K	220.75	
-Interest & Dividend paid/others	8.90	
-Purchase of fixed Assets	183.40	
-Closing cash & bank balance	58.27	524.25

- It appears that out of the unsecured loan of Rs 314.94 crores as FCCB the company has utilized Rs. 52.93 crores in subsidiary companies and a fixed deposits of Rs. 220.75 crores with SBI, London UK.
- The Company has Utilized Rs. 183.40 crores in Fixed Assets out of which a sum of Rs 117.53 crores spent for purchase of computers & accessories, Rs 18.93 crores spent for Furniture & Fixture and Rs 25.82 crores in softwares/Knowledge based Contents etc from its own subsidiaries.

Clarification

As per FCCB rules by the Reserve Bank of India, the amounts raised via FCCB have to be compulsorily kept outside the country and can only be transferred to India when Capex is incurred for ICT and SmartClass for meeting the objectives of the FCCB, till such time it has to be parked outside India. The necessary statements on the utilization of the FCCB are regularly filed with RBI.

Excerpt:

“EDUCOMP has appointed Anupam Bansal & Co., (D-29/32, Connaught Place, New Delhi-11001) a small Audit proprietary concern to complete statutory audit to manipulate the accounts.”

Clarification

Our Auditor is a reputed Indian firm. In any case, we take transparency and corporate governance very seriously. We have always set new standards for disclosure of information (our Quarter 2 FY09 – investor update is quite instructional in this regard and is attached as an example). In our earnings call on January 27, 2009, we will release our corporate governance roadmap. It is our endeavor to be among the Top 10 in India in Corporate Governance.
